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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

October, 1986

The Conference Board Survey of Financial Indicators

October, 1986

Introductory Note: This is the twenty-first issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based. Please note that the format of the next issues will change in order to present the findings more quickly.

According to 28 senior financial executives who were polled in September:

- The U.S. economy will be marked by at least two more years of moderate economic growth.
- Inflation will remain moderate through 1988.
- Profits of the surveyed companies will rise an average of 17 percent in 1987.
- There will be some further weakening of the U.S. dollar.

No Recession In Sight

According to the latest semiannual survey of Financial Indicators and Corporate Financing Plans, financial executives continue to see real growth ahead for the U.S. economy. Real output is expected to grow at an average rate of 2.7 percent in 1987 and 2.8 percent in 1988. Not one of the participating panel members sees a recession in either year.

In line with these expectations, no flare-up of inflation is anticipated. The panelists foresee the nation's GNP deflator rising at an average rate of 3.1 percent next year and 3.6 percent in 1988. This finding is significant since the survey took place in September 1986, during the precise period in which concern over inflation started to revive. Financial market participants in September reacted to soaring money aggregates, sharp movements in prices of precious metals, and price increases in commodity futures. Panel members view these moves as temporary aberrations rather than early warning signals of sharply higher inflation.

The panel looks for gently rising interest rates and the continuation of a "normal" yield curve, i.e., one in which short term rates remain below the level of long term interest rates. Between 1987 and 1988, the prime rate is expected to rise from an average of 7.8 percent to 8.2 percent, and the Aaa rate from 8.8 percent to 9.0 percent. The rise in interest rates is approximately in line with the expected increase in money GNP and inflation.

Higher Profits In 1987

With respect to their own companies, nearly half of the financial executives who responded look for company profits (before tax) to increase in a range of 8 to 12 percent. The average increase projected by all respondents is 17 percent; but the average falls to slightly under 9 percent when the highest and lowest estimates of corporate profits are removed. In either case, the average is higher than last year's outlook.

Surprisingly, although the panel looks for the Dow-Jones average to rise to 1881 next year and to nearly 2000 in 1988, companies' net new equity issues are not expected to increase in the forecast period. They do, however, plan to rely heavily on external funds and anticipate continued heavy issuance of bonds and bank term loans. Total prospective financing of corporations as a whole, according to Moody's, far exceeds last year's prospective figure: The figure for industrial companies alone amounts to more than $73 billion, as compared with $51 billion a year ago. Executives of companies participating in the survey plan to continue to rely less heavily

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THE PANEL'S OUTLOOK FOR PROFITS

NUMBER OF PANEL MEMBERS

	Less than 0	*Zero but less than 10%*	*10% but less than 20%*	*20% but less than 30%*	*30% and above*	*Range*	*Average*
October 1985	3	8	6	3	1	(20)-40	8.3
October 1986	4	5	6	1	3	(50)-232	17.4

than usual on short-term funds, reflecting their outlook for moderate growth in the economy.

And A Weaker U.S. Dollar

Executives whose companies engage in international operations see less volatility in exchange rates over the coming six-month period. The Japanese yen and the German mark are expected to appreciate against the U.S. dollar, but in a range of 1 to 5 percent. The Canadian dollar is expected to depreciate by 1 to 5 percent against the U.S. dollar. Executives are divided on the outlook for the British pound. The majority looks for the dollar price of gold to be higher by year end and by the end of the first quarter of 1987, with somewhat less than half expecting increases of more than 5 percent.

Vincent G. Massaro

ATTENTION PC USERS: All data in this publication plus extensive government statistics are available on cost-effective diskettes. For more information, contact Linette Waters at (212) 759-0900.

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average Dec. '86 (4th Q GNP)	Average March '87 (1st Q GNP)	Average 1987	Average 1988
New Aaa industrial rate (%)	8.9	8.5	8.6	8.8	9.0
Prime rate (%)	8.0	7.5	7.7	7.8	8.2
Dow-Jones Average (Index)	1,775.0	1,858.0	1,861.0	1,881.0	1,993.0
Real GNP (%)	1.1	2.3	2.4	2.7	2.8
GNP deflator (%)	2.1	2.7	3.1	3.1	3.6

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds*	69	6	2	10	2	6
External Funds	31	6	2	6	2	10
	100%					
(b) Composition of *External Funds*						
Net new bond issues	61.3	8	2	7	0	6
Private placements	7.1	20	0	1	1	1
Net new equity	5.7	19	0	0	0	4
Bank term loans	13.5	20	1	0	1	1
Bank short-term loans	6.4	20	1	0	0	2
Commercial paper	9.6	10	1	6	0	6
Other	-3.6	18	1	0	2	2
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1986:

	Latest Available	Expected Change: By Dec. 31, 1986 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By March 31, 1987 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .7212	16	1	0	9	0	12	3	0	11	0
British pound	1.49	8	10	0	8	0	4	11	2	8	1
German mark	.4932	4	16	3	2	0	1	18	3	3	0
Japanese yen	.0065	6	13	4	2	0	1	13	5	6	0
Gold	$384.70	2	9	10	1	0	3	9	9	0	1

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